

CHAPTER 5

PROCUREMENT

SCOPE

This chapter is a brief summary of State of Indiana purchasing rules and regulations, as established by the Indiana Department of Administration (IDOA). Further regulations are included in Indiana Administrative Code (IAC), Title 25 and specific current purchasing regulations are detailed in the IDOA publication, STREAMLINING Delegation of Purchasing Authority Program, which is available at www.in.gov/idoa/3341.htm

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5.1 STATUTORY AUTHORITY

IC 5-22-2-24(a), **Purchase**, states in part: "Purchase" includes buy, procure, rent, lease, or otherwise acquire. (b) The term includes the following activities:(1) Description of requirements.(2) Solicitation or selection of sources.(3) Preparation and award of contract.(4) All phases of contract administration.(5) All functions that pertain to purchasing.."

IC 5-22-2-25, **Purchasing agency**, states: "Purchasing agency" means a governmental body that is authorized to enter into contracts by this article, rules adopted under this article, or by another law.

IC 4-13-1.3 delegates to the Department of Administration the authority and responsibility for purchasing of all supplies and services for state agencies under IC 5-22, including adoption and maintenance of purchasing regulations. Specific purchasing regulations are included in Indiana Administrative Code (IAC), Title 25. (www.in.gov/legislative/iac/iac_title?iact=25)

5.2 ACCOUNTING THEORY

5.2.1 Encumbrances

By entering desired purchases in eProcurement (ePro), pre-encumbrances will be established when a requisition is approved. Pre-encumbrances will be automatically converted to encumbrances when the related purchase order has been budget checked and approved. Thus, as the encumbrance process sets aside appropriated funds for a specific expenditure, overspending of appropriations will be prevented. Outstanding encumbrances should be periodically reviewed to determine whether still in effect; if not, the outstanding encumbrance balance should be liquidated, thus freeing the related funds for future expenditures.

5.2.2 Capital Asset Purchases

Purchasing capital assets through ePro is required for several reasons, one of which is that required asset information will be included throughout the process which will enable the asset to be automatically included in the State's asset system. Inclusion of all capital assets is a vital component of the State's financial reporting. Through volume purchasing, more value for the dollar with ePro purchasing will result in a higher level of accountability for tax dollars.

5.2.2.1 Leasing Capital Assets

When processing an asset lease through ePro, it is required that, in the PO process, a checkbox be selected to indicate a lease transaction. All lease documents will be assessed through ENCOMPASS by the AOS Finance staff to determine whether the lease qualifies as a "capital lease". Generally accepted accounting principles require that assets under capital leases be considered as an owned asset and depreciated as such. Operating leases, on the other hand, are expensed as lease payments are made. The Lease Guide for ePro and

Purchasing users, available from the IDOA website <http://www.in.gov/idoa/2342.htm> under the subheading “Leasing” should be followed.

5.2.2.2 Expiration of Lease

At the end of the lease period for capital assets, the AOS Finance staff will terminate the lease in ENCOMPASS and send a message to the agency asset staff that, if the agency is keeping the asset for future use, they need to enter the asset as a Basic Add. See Chapter 08 Capital Asset Accounting for details on accounting for these entries.

5.3 INTERNAL CONTROLS

5.3.1 Segregation of Duties

If one individual is responsible for the requisition, purchasing, and receiving functions, fictitious or unauthorized purchases can be made. This may result in the theft of goods and possibly payment for unauthorized purchases.

Roles approved by the Financial Policy Group and set up by GMIS are designed to reduce the risk of collusion and unauthorized purchasing to a relatively low level. (See the internal control flowchart and role definitions at [https://myshare.in.gov/sba/encompass_in_ENCOMPASS Documents>Internal Controls](https://myshare.in.gov/sba/encompass_in_ENCOMPASS_Documents>Internal_Controls)). It is recommended that the various ePro roles be assigned to separate individuals as illustrated on the chart. The basic underlying rule is “no one should be able to approve his/her own work.” Also, no one can obtain a ‘working’ role without completing the applicable training.

An employee who has been designated as Procurement Agent/Buyer for an agency after satisfactorily completing applicable IDOA courses may be assigned to Requisition, RFP, and PO roles if the following conditions are met:

- Requisitioner records Requestor (if different) and requisition is approved by 1) ProcAgent and; 2) FISCAL (see role names below).;
- PO is then to be approved by the agency Head Procurement Agent or IDOA (if applicable)..

The following are definitions of ePro entry and approval roles:

- SOI_Ag_Proc_Agent – Procurement Agent – Delegated by IDOA; if more than one, a Head Procurement Agent is determined
- SOI_Ag_Fiscal – Fiscal approver – Usually CFO or director of accounting department – must have knowledge of accounting rules, chart of accounts, etc.

NO ONE should hold both of the above rolesAgency designated “SOI_ePro_Buyer” can hold the SOI_Ag_Proc_Agent role.

Additional levels may be added, as requested by agency, for certain types or cost of purchases.

5.3.2 Routing for Purchase Approvals

The ePro system will automatically route requisitions through the approval system as required for each type of purchase. Approvals may be required of the Commission on Public Records (ICPR), the Office of Technology (IOT), or the Department of Administration (IDOA) Procurement Division, Motor Pool, Budget Agency, PEN Products and/or IN-ARF. Necessary budget checks will be processed automatically prior to agency supervisory approvals.

5.4 BUSINESS PROCESSES/STATE OF INDIANA POLICY

5.4.1 Purchasing from State Resources

Regardless of the type or dollar amount of any purchase, products or services available from the three sources in this section must be purchased from these sources or as directed/approved by IDOA Procurement

5.4.1.1 Quality Purchase Agreement (QPA)

QPA contracts for repetitively purchased items are negotiated by the IDOA Procurement Division only, resulting from a competitive solicitation process designed for cost savings through volume purchasing. QPA contracts are available at <http://www.in.gov/idoa/2449.htm>.

5.4.1.2 IN ARF

As provided by IC 5-22-13-3, work centers provide guaranteed products and services to state agencies and local governments while benefiting persons with disabilities. The IN-ARF catalog is available at <http://www.smartpartnersalliance.org>.

5.4.1.3 PEN Products

Established by the Indiana Department of Correction as provided by IC 5-22-11, a variety of products and services are offered by PEN Products, including office furniture and supplies. The PEN Products catalog may be viewed at <http://www.in.gov/idoa/2470.htm>

5.4.1.4 **Exceptions to State Resource Purchasing**

Exceptions may be made if:

- *An emergency exists.*
- *A substantial cost savings will result from making the purchase from another source.*
- *Only one source meets the agency's reasonable requirements*
- *Purchase of data processing contract or license agreements for software*
- *The agency's functional requirements can't be met by the product or service available from the State Resource.*
- *See IC 5-22-10 for further exceptions.*

Potential cost savings must be considered with application of the Fair Market Price policy available in the STREAMLINING Delegation of Purchasing Authority Program, available at www.in.gov/idoa/services/proctraining/.

5.4.1.5 **Other General Procurement Regulations**

All purchases, regardless of amount, must be in concurrence with current IDOA procurement regulations. A few general guidelines are:

- *One time purchases of less than \$500 may be made without soliciting competition.*
- *Purchases of \$500 to \$5,000 require informal quotes; although for quotes above \$2,500, the vendor must sign a quote package containing State Terms and Conditions.*
- *Purchases of \$5,000 to \$75,000 require formal written quotes (agency handles within their delegation).*
- *Purchases \$75,000 and above must be solicited, awarded, and processed by the IDOA Procurement Division.*

Specific rules on obtaining quotes for commodities, contracts and printing are in the StreamliningManual, available at <http://www.in.gov/idoa/2342.htm>.

5.4.1.6 **Purchase and Payment Processes**

*As explained in 5.2, **Accounting Theory**, if purchases are processed through ePro, funds will be automatically encumbered for specific purchases. Also, most accounting information will be automatically pulled from requisition to purchase order to receiver to voucher entry, eliminating the necessity to re-enter such information.*

5.4.1.7 Requisition

Requisitions can be processed through the ePro system by selecting from a large array of products and vendors. The requisition request will be budget checked and routed to appropriate persons for approval. If a requisition is entered by staff other than the person requesting the purchase, the “on behalf of” option should be noted. The person requesting the purchase is known as the “Requestor”.

5.4.1.8 Multi-year Contracts/Leases

All contracts and commitments must be entered in the ENCOMPASS financial system in order to create an encumbrance for the funds committed. For contracts (or leases) spanning more than one fiscal year, all years should be accounted for in the initial requisition by using a separate line for each fiscal year. (See Entering Multiple Year Contracts at <http://www.in.gov/idoa/2342.htm> under heading “Requisitions” for processing detail.

5.4.1.9 Request for Quote

If quotes are required to be processed by the agency and the ePro requisition is developed through the quote process, complete ready-to-mail, fax (or e-mail) request for quote forms can be produced in the system.

5.4.1.10 Purchase Order

After a requisition and/or quote is processed in ePro and approved through all required channels, a purchase order should be processed in a similar manner. If desired, a copy of the PO can then be printed for the agency’s records and the receiving department. A copy should be mailed, faxed, or e- mailed to the vendor.

5.4.1.11 Receipt of Product

When the product is received, a Receiver should record details of the receipt in ePro. The Receiver should be independent of both the purchasing and the payable process. If this person is unable to make the system entry, he/she should note on the bill of lading the quantity received and date received. After signing the bill of lading, he/she should send this paperwork to a person designated to make the system entry on his/her behalf. All such paperwork, or a copy, should be retained in the agency files.

5.4.1.12 *Payment Processing (for ePro Purchases)*

After receipt of the commodity or service, receiving information, including the date received, must be entered into the receiver. When the invoice is received and the receiver information is pulled to AP, the invoice date and accounting date should be entered in AP and a transmittal form printed. Attach the vendor's invoice to the transmittal form and send it to the Auditor's office for payment processing.

5.4.1.13 *Payment Processing (for non ePro Purchases)*

For non-PO purchases, all applicable information must be entered directly into the ENCOMPASS Accounts Payable module and an online voucher printed. Back up documentation should be attached to the online voucher and sent to the Auditor's office for payment.

*Complete details on payment processing are included in Chapter 6, **Accounting for Expenses, Expenditures**.*

5.4.1.14 *Other Items of Note*

Any procurement requiring another agency's approval will automatically be routed to that agency for approval through ENCOMPASS.

Signed receivers (packing slips) and other documentation must be retained at the agency for audit purposes and to comply with retention schedules.

Agencies are responsible for complying with all requirements established by the Department of Administration relative to this program. Agencies are subject to periodic assessments by Procurement Division staff and audits by the State Board of Accounts.

Contact the Department of Administration's Procurement Division with any questions regarding the Procurement Streamlining Program.

5.4.2 *Purchasing using Special Disbursement Officer Account*

Outside bank accounts are permissible for certain small and non-repetitive purchases through an SDO account. Procedures for use of these accounts are in Chapter 6 Expenses/Expenditures.

5.4.3 *Purchasing using Procurement card or Travel Card*

A Procurement Card (PCard) or Travel Card (TCard) can be obtained through the IDOA. The PCard is to be used for purchases similar to the SDO account, including emergency

purchases. The TCard is intended to relieve state employees from having to pay allowable travel expenses from personal funds.

Updated procedures and regulations for obtaining and using these cards are at <http://www.in.gov/idoa/2453.htm>.

Backup documentation for purchases using the SDO account, PCard, or TCard must be retained at the agency for audit.